June 2021

Green taxes in Europe: impact on your business

Sustainability and addressing the impact of climate change is increasingly a priority for many company boards, with the COVID-19 pandemic accelerating public demand for a greener, cleaner, more biodiverse planet. The European Green Deal (EGD) is Europe's ambitious climate plan and is changing the tax and business landscape.

Remaining abreast and having understanding of the green tax and incentives landscape is important, as well as understanding potential tax implications for changing business operations and models.

Building a better working world

What is the European Green Deal?

With the global backdrop of the Paris Agreement and the United Nations Sustainable Development Goals, the EGD sets out to be the leading force in Europe's fight against climate[1] change. The European Union (EU) aims to be climate neutral by 2050, "where there are no net emissions of greenhouse gases (GHG) and, where economic growth is decoupled from resource use". The bar is set high for 2030, with an ambition for carbon emissions to be reduced by at least 55% (from 1990 levels) and at least 32.5% improvement in energy efficiency by 2030.

The EGD sets out the path forward: one of regulatory changes, new taxation mechanisms, more importantly funding, incentives and subsidies to enable the transition. For businesses, this will mean reducing their carbon footprint, restoring biodiversity, creating circular business models and products, reusing and recycling more, investing and innovating new renewable energy and clean technologies. Ambitious national plans are underway too, for example, the UK 10-point Green Plan.[2]

Rise of green taxes and funding opportunities

Countries have committed to ambitious net-zero plans and the role of business is very clear. For governments, tax will be and is being used as a lever to achieve these targets. This manifests in two ways: through increased tax costs by taxing negative externalities from non-environmentally friendly behaviors (for example, high carbon emissions or high amount of plastic waste) and conversely, through the use of tax incentives and financing, which can help to drive sustainable business transformation and behaviors with positive environmental impacts.

The EGD offers significant opportunities for the funding of sustainability research and innovation. A third of €1 trillion funding is available as part of the EGD budget for those with green growth and innovation, in projects ranging from clean-tech to batteries. Obtaining financing is not simple, but if done successfully, it offers an opportunity to offset some of the operational capital investment needed for transformation. The EU funding program is extensive and includes Horizon Europe, LIFE, Innovation Fund, Invest EU Fund, in addition to regional funding initiatives.

Key questions

- How can you acquire the capabilities for an effective climate response?
- How will you collaborate with the right stakeholders?
- How will you finance the transition to a low-carbon economy?

Plastics and packaging taxes

EGD priority: Recycle more than half of plastics waste generated in Europe by 2030

One of the EGD's priorities is to drive the plastics circular economy, particularly increasing recycling rates of plastic and incentivizing use of new materials and more sustainable use of plastics.

A key legislative instrument is the EU Plastics Levy,[3] which was introduced from 1 January 2021. The Levy is a mandatory contribution of 0.8 EUR per kilogram of non-recycled plastic packaging waste to be paid by EU member states into the EU budget.

In order to pay this levy, EU member states are considering their options, which include:

- Implementing a new plastics tax to recoup the costs (for example, Italy, Spain, Poland)
- Reviewing existing plastics and packaging taxes
- Paying the levy without any increase on new or existing taxes
- Increasing extended producer responsibility (EPR) fees (EPR is a fee that businesses pay a third-party organization to manage packaging waste at the end of life)

In response to the EU Plastics Levy, Italy and Spain have introduced new draft tax legislation with anticipated effective dates of January 2022. The drafts indicate the scope is incredibly broad, extending to any company which has an element of non-recyclable plastic packaging. The UK Government has also proposed a "Plastic Packaging Tax", which will apply to plastic packaging produced in, or imported into, the UK, unless the packaging contains at least 30% recycled plastic.[4]

[1] European Commission, "A European Green Deal", December 2019, https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

[2] UK Government, "The ten point plan for a green industrial revolution", November 2020, https://www.gov.uk/government/publications/the-ten-point-plan-for-a-green-industrial-revolution

[3] European Commission, "Plastic Own Resource", January 2021, https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/revenue/own-resources/plastic-own-resource_en

[4] UK Government, Introduction of Plastic Packaging Tax from April 2022 Policy Paper, March 2021, https://www.gov.uk/government/publications/introduction-of-plastic-packaging-tax-from-april-2022/introduction-of-plastic-packaging-tax-2021

Key questions

- How are you staying ahead of the fast-evolving plastics management and packaging taxes landscape?
- Have you quantified the potential impact of new plastics and packaging taxes on your business?
- Are your enterprise resource planning (ERP) systems ready and able to support compliance and reporting?

Carbon taxes, including EU Carbon Border Adjustment Mechanism (EU CBAM)

EGD priority: Reduce 55% carbon emissions by 2030

Carbon pricing is designed to encourage the shift of production toward less carbon-intensive processes. There are several carbon pricing tools and taxes in place across Europe, including:

- EU Emission Trading System, cap and trade (revised proposal due July 2021)[5]
- National emission trading schemes (some are under review in various jurisdictions)
- National carbon taxes (some are under review in various jurisdictions)
- EU Energy Taxation Directive (revised proposal due July 2021)[6]
- EU CBAM (legislative proposal due July 2021)[7]

The EU CBAM is a new measure designed to introduce carbon pricing on imports into the EU to reflect carbon emissions costs, maintain competitiveness of EU businesses and reduce carbon leakage. Details around CBAM design remain unclear until the draft law is released in mid-July[8].

The EU CBAM will have a profound impact on economic viability and competitiveness of imported materials, or products – this is for EU importers, as well as non-EU exporters in the EU.

Key questions

- How are you staying ahead of the fast-evolving carbon pricing (including taxes) landscape?
- Have you quantified the potential impact of EU CBAM and changing carbon pricing on your business?

Public tax transparency and sustainability reporting

The greater focus on sustainability and climate change as part of the COVID-19 recovery has resulted in more emphasis on environmental and social governance (ESG) metrics and performance for companies.

Such metrics feature tax and in December 2019, tax standard GRI-207 was added as a standalone standard to the Global Reporting Initiative (GRI). GRI-207 standard would merit being included in GRI reporting if tax was considered important to reflect the organization's economic, environmental and social impacts or influencing decisions of stakeholders. The GRI-207 specifically uses country-by-country reporting (CbCR) of corporate income taxes paid as a metric. The more recent set of World Economic Forum metrics also includes tax as a metric, but this time as total tax paid.

Whilst these standards are voluntary, EU mandatory public CbCR would require large MNEs to publicly disclose an array of tax-related information, including the income tax they paid in each EU country. The EU co-legislators reached an agreement on the content of the Directive on 1 June 2021. It is expected that the Directive will enter into force after the formal adoption process has been finalized in September or October 2021.

It is worth noting some countries and industries also already have strict tax transparency frameworks.

Key questions

- What is your tax transparency and governance strategy?
- Are you ready for greater public tax transparency standards?

[5] European Commission, EU Emission Trading System, Directive 2003/87/C, https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-revision-of-the-eu-emission-trading-system-(ets)/05-2021

[6] European Commission, EU Energy Taxation Directive, Directive 2003/96/C, https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-revision-of-the-energy-taxation-directive

[7] European Commission, EU Carbon Border Adjustment Mechanism, https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-carbon-border-adjustment-mechanism

[8] Note of interest: Draft EU CBAM legislative text was publicly leaked to the press in mid-June 2021. Whilst the draft provides some details, it is subject to change. The official release date is mid-July 2021.

Contacts

For more information on how the European Green Deal and green taxes might impact your business, please speak to your local EY Tax contact or a member of the EMEIA Green Tax Hub team listed below.

Tax and sustainability

Alenka Turnsek | alenka.turnsek@uk.ey.com
Ana Fallas Conejo | ana.fallas.conejo@nl.ey.com
Maike Moore | Maike.Moore@de.ey.com

Sustainability funding

Frank Burkert | frank.burkert@de.ey.com
Tanja Misfeld | tanja.missfeld@de.ey.com

Plastics and packaging taxes

Sofie van Doninck | sofie.van.doninck@be.ey.com
Edward Sims (specifically EPR) | edward.sims@dk.ey.com

Carbon taxes and EU CBAM

Alenka Turnsek | Alenka.Turnsek@uk.ey.com
Kasia Klaczynska-Lewis | katarzyna.klaczynska-lewis@pl.ey.com

Public tax transparency and tax policy

Marlies de Ruiter | marlies.de.ruiter@nl.ey.com
Maikel Evers | maikel.evers@nl.ey.com

Sustainable operating models

Joost Vreeswijk | joost.vreeswijk@ch.ey.com
Hein Brinkmann | Hein.Brinkmann@es.ey.com

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EYG no. 005405-21Gbl

BMC Agency GA 1019285

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